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February 11, 1999

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, SW, Room TWB-204
Washington, D.C. 20554

Re: Notice of Ex Parte meeting: In the matter of Access Charge Reform, CC Docket No. 96-262; Price Cap Performance Review for LECs, CC Docket No. 94-1; MCI Telecommunications Corp. Emergency Petition for Prescription, CC Docket No. 97-250; and Consumer Federation of America Petition for Rulemaking, RM-9210.

Dear Ms. Roman Salas:

The attached materials concern matters related to the referenced proceedings. They were today provided to Kathryn C. Brown, FCC Chief of Staff, Lawrence E. Strickling, Chief of the Common Carrier Bureau, Kyle D. Dixon, Legal Advisor to Commissioner Powell, Paul Gallant, Legal Advisor to Commissioner Tristani, Linda Kinney, Legal Advisor to Commissioner Ness, Kevin J. Martin, Legal Advisor to Commissioner Furchtgott-Roth, and Thomas C. Power, Legal Advisor to Chairman Kennard.

Two copies of this Notice are being submitted for each referenced proceeding in accordance with Section 1.1206 of the Commission's rules.

Sincerely,

L J Cali

Att.

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News Release

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AT&T CHAIRMAN CALLS FOR $10 BILLION 'TAX CUT' FOR CONSUMERS
Armstrong says regulators should cut the excessive fees all long distance callers pay to the local phone monopolies

SAYS TELECOM ACT SHOULD BE ENFORCED, NOT REOPENED

FOR RELEASE WEDNESDAY, FEBRUARY 10, 1999

WASHINGTON – AT&T Chairman and CEO C. Michael Armstrong said today Americans should celebrate the third anniversary the Telecommunications Act of 1996 with a $10 billion cut in the so-called access fees that consumers and businesses indirectly pay to the local phone providers for originating and terminating long distance calls.

Cutting the overpayments collected by the local telephone companies for completing long distance calls would drive a more competitive communications market and put $10 billion back in the pockets of consumers, he said.

"This is a consumer tax because it represents a regulated mark-up of 400 percent over what it actually costs the local company to complete your call," said Armstrong in an address to the National Press Club. Of every dollar consumers pay in long distance prices, about 30 cents goes to the local telephone company, he said.

"Access charges are a form of price gouging that can only exist in a monopoly market," said Armstrong. "But to compound matters, access charges are now a weapon that serves to keep that monopoly intact."

- more -

Armstrong said the current access charge regime forces new entrants to subsidize their competitors, the existing local phone monopolies, making it more difficult for real choice to develop in local phone markets.

While the local monopolies have threatened higher local phone rates if the access charge subsidy is taken away, Armstrong said very little of the subsidy is used to support local phone service.

Instead, "the Bell companies have been using this cash to finance overseas investments, from the EU to Brazil to East Asia," said Armstrong.

"Long distance callers are subsidizing those investments every time they pick up the phone because their calls have to pass through the local monopoly networks," he said.

Armstrong said full competition in local markets will arrive faster "if federal and state regulators hang tough and insist that access charges be based on cost. That would give added momentum to the Telecom Act, just as the Act is taking root in the market."

Many communications companies are convinced the Act has staying power and are investing in new technology and new services, said Armstrong, in part because the Act provides certainty about the ground rules in the market.

"All of this investment would come to a screeching halt if Congress were to re-open the Act," he said. "That would mean a return to the uncertainty and chaos of the past."

"The Telecom Act of 1996 doesn't need rethinking," said Armstrong. "It needs enforcing. Federal and state regulators should continue to stand firm, as they have, and send local phone companies the message that their obligations under the Telecom Act are not optional."

# # #

C. Michael Armstrong

National Press Club

Washington, D.C.

February 10, 1999

As Prepared for Delivery

(OPTIONAL OPENING)

Thank you Larry (Lipman) and hello everybody.

First order of business, let me congratulate all of you for the thorough job you've done covering AT&T.

I really mean that, even though you've disrupted life in the Armstrong family.

My 86-year-old mother-in-law gets most her news from TV these days. When we announced that AT&T was buying IBM's global data network for $5 billion, she called my wife Ann and said:

"I saw Mike's picture on TV. Isn't it wonderful? After Mike spent all those years at IBM, now he can buy it back."

(pause)

And then she said. "But don't you think $5 billion is a bit too much?"

And my wife now understands that the chairman of AT&T seems to live in a fishbowl.

We stopped off to get the car washed and the guy behind the cash register asked me: "Aren't you Mike Armstrong?"

I confessed that I was. So he asked me to explain our latest long distance offer. And the lady in line behind me wanted to know how the TCI deal was coming along.

I'm glad to answer questions like that. But my wife says this is my job, not hers. So she refuses to go out in public with me. Says I'm a liability.

But I'm here to discuss the status of the Telecom Act of 1996, not the status of the Armstrong household.

The landmark Telecommunications Act of 1996 marked its third anniversary on Monday. And I think America should celebrate the occasion with a massive tax cut.

Not from the Federal government but from your local phone company.

The tax I'm referring to is the $10 billion a year that local phone companies charge consumers and businesses to originate and terminate your long distance calls.

Out of every dollar you pay in long distance charges, an average of 30 cents goes to the local phone monopoly. This is a consumer tax because it represents a regulated mark-up of 400 percent over what it actually costs the local company to originate and complete your call.

Access charges are a form of price gouging that can only exist in a monopoly market. But to compound matters, access charges are now a weapon that serves to keep that monopoly intact.

The Telecom Act is a rare piece of bipartisan legislation designed to open the local telephone market to competition and give consumers the advanced communications services of the digital age.

Congress realized that 98 percent of long distance traffic still has to be completed through the networks of the local monopolies. So the Telecom Act provides that the short trip through those monopoly networks shouldn't be prohibitively expensive for new competitors.

It says newcomers shouldn't have to subsidize the local companies. In other words, they should pay cost plus a reasonable profit for the local company. That would be in the spirit of the Telecom Act

But regulators have let the Bell companies continue to charge these excessive fees. If this continues, the effect on consumers and new competition will be chilling.

The consumer effect is painfully obvious. They're being hit with $10 billion in unnecessary costs right now.

And how is new competition going to grow in a market where costs and prices are set arbitrarily high, to the advantage of the monopoly provider.

Put yourself in the position of a new competitor in the local phone service market. You want to offer a combination of local and long distance service, probably add some advanced features to differentiate your offer. In other words, you want to do just what the Telecom Act intended.

However, you will soon find that access charges force you to subsidize your biggest competitor: the existing local phone monopoly. And access charges raise your own costs for breaking into a monopoly market.

The local monopolies will typically charge you 4.6 cents per minute to carry your customers' calls through their local network, a service that only costs the local company six-tenths of a cent. Curiously, that's just about what they charge each other when they have to handle each other's calls.

But you have the privilege of paying more than four times that price for the vast majority of your calls -- those calls where you have no choice but to use the monopoly company's local network. How long do you think you or any other new competitor could last with inflated costs like that?

You would soon lose money on every long distance call and eventually lose market share because the playing field was not close to being level. And most importantly, consumers would never get the choice in services that a competitive market produces.

Needless to say, the big monopolies want to sustain those inflated access charges. Lately they've been threatening consumers with higher local phone rates if the access charge subsidy from long distance calls is taken away.

But, in fact, precious little of those billions of dollars in access charges go to support local phone service. The Bell companies have been using this cash to finance overseas investments, from the EU to Brazil to East Asia.

Long distance callers are subsidizing those investments every time they pick up the phone, because their calls have to pass through the local monopoly networks.

Admittedly, AT&T is on its way to reaching customers directly over cable TV lines thanks to our merger agreement with TCI and our joint venture with Time-Warner.

These agreements will give us a path into better than 40 percent of all American homes. But more than that, they'll give us the ability to exploit the convergence of TV, PC and telephone to create a whole new generation of communications, information and entertainment services.

For the sake of perspective, it might be worth a minute to explain just what that means --- and what it doesn't mean.

Consider the capabilities a digital cable pipeline will provide the typical family. The cable box on your TV will not only let you order pay-per-view movies-- it will be a virtual communications center.

When you come home, you can turn on the TV, the PC or the telephone to retrieve all your messages -- e-mail, voice, or faxed. Or, if you're on the road, have them read to you over your wireless phone as the networks translates text to voice automatically.

The cable box will also give you access to the Internet at speeds a hundred times faster than today's fastest modems. And it will always be "on." No need to dial up and wait for connectivity.

And the same cable line that brings TV and the Internet into your home will give you as many telephone lines as you'd like: one for Mom and Dad, one for the kids, one for the fax and one for the PC. Each with its own ring.

You can take as many lines as you need -- and only pay for what you use. Have a visiting mother-in-law? Point and click to provision another line for her own phone number and message center while she's with you. Need caller ID? Call waiting? Or Call forwarding? It's all packed into one simple, low-cost feature set.

So AT&T's agreements with TCI and Time-Warner are exactly the kind of investment the Telecom Act was intended to encourage. They are investments in new technology that translates into new services and new choices for consumers.

But let me get to what our investments in cable systems do not mean. There is nothing in what we are doing that would excuse the Bell companies from their responsibility to obey the law of the land and open up their monopoly markets to competition.

It will be 4 to 5 years before AT&T's investments with the cable companies can have their full effect on consumer choice. And it will be many years before AT&T or any other new competitor will be free from dependence on the local networks. American consumers shouldn't have to wait that long for the benefits of competition. And that brings me back to that $10 billion hidden tax.

Full competition will get here a lot faster and be a lot stronger if federal and state regulators hang tough and insist that access charges be based on cost. That would give added momentum to the Telecom Act, just as the Act is taking root in the market.

A year ago the Act seemed mired in a swamp of litigation created by the Bell companies and GTE. But now we can see a way out of the swamp. In January the Supreme Court upheld the constitutionality of the Act and the authority of the FCC to enforce it.

Just as important, the last three years have convinced many communications companies that the Act has staying power. Like AT&T, they are investing in new technology and new services, in part because the Act gives them certainty that the ground rules of the market won't be shot out from under them.

All of this investment, however, would come to a screeching halt if Congress were to re-open the Telecom Act. That would mean a return to the uncertainty and chaos of the past.

No one should doubt that the Telecom Act can work, if we let it. Just look at the transformation of the long distance market that began with the break-up of the Bell System in 1984. Public policy encouraged new competitors to come into the long distance market.

The old AT&T monopoly long distance network was opened up to competitors on fair terms that created a level playing field. And the results were stunning.

Consumers have enjoyed a 50 percent reduction in long distance prices. The long distance market has over 500 competitors, large and small. New services have exploded as those competitors jumped in to earn your business.

Unless you've just had a telemarketing call at dinner time, you'd probably agree that the opening of the long distance market has been a rip-roaring success.

We can see the same results in the local phone market, if we let the Telecom Act do its job.

The Telecom Act of 1996 doesn't need re-thinking. It needs enforcing. Federal and state regulators should continue to stand firm, as they have, and send local phone companies the message that their obligations under the Telecom Act are not optional.

The Bell companies must live up to the bargain they forged with the Congress three years ago:

- First, legitimately open their local markets to competition.

- Second, stop soaking consumers with that hidden tax we call access charges.

- And then, they can enter the already competitive long distance market.

If we enforce the Telecom Act and do something about access charges, consumers will get the services and competitive prices Congress intended.

Yes, ending the "access tax" will drive a competitive communications market, and put $10 billion back in the pockets of American consumers.

Not a bad way to celebrate an anniversary.

Thank you all very much.

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